

## Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 SWF-01 AID-05 CEA-01 CIAE-00

COME-00 EB-07 FRB-01 INR-07 NSAE-00 RSC-01 CIEP-02

SP-02 STR-04 TRSE-00 LAB-03 SIL-01 SAM-01 OMB-01 PA-02

PRS-01 USIA-15 /078 W

----- 076476

R 221558Z NOV 74

FM AMEMBASSY BONN

TO SECSTATE WASHDC 6414

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL FRANKFURT

UNCLAS SECTION 01 OF 02 BONN 18236

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, GW

SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING NOVEMBER 21)

REF.: BONN 17922

1. HERSTATT: THE CHANCES THAT FORMAL BANKRUPTCY PROCEDURES WOULD REPLACE EFFORTS TO SETTLE THE HERSTATT ACCOUNTS THROUGH A LIQUIDATION COMPROMISE INCREASED THIS WEEK AS HANS GERLING WAS REPORTED NEAR AGREEMENT WITH THE ZURICH INSURANCE COMPANY (SWITZERLAND) IN THE SALE OF SIGNIFICANT PORTION OF THE GERLING INSURANCE GROUP. ACCORDING TO PRESS REPORTS THE SALE WOULD IN-  
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VOLVE 25.1 PERCENT OF THE GERLING GROUP

WITH AN OPTION FOR A FUTURE PURCHASE OF 25.9 PERCENT. GERLING WOULD RECEIVE AN INITIAL PAYMENT OF DM 50 MILLION AND AN ADDITIONAL YET TO BE DETERMINED AMOUNT AFTER A THOROUGH EVALUATION. OF THE NET WORTH OF THE GERLING INSURANCE GROUP. HOWEVER, IT IS QUESTIONABLE WHETHER THIS ADDITIONAL PAYMENT WILL PROVIDE GERLING WITH A TOTAL OF DM 200 MILLION, THE AMOUNT HE WOULD PAY IN THE LATEST COMPROMISE SETTLEMENT. ZURICH INSURANCE, ON THE OTHER HAND, IS CONCERNED THAT A CONSORTIUM OF GERMAN BANKS WILL TAKE OVER A PORTION OF THE GERLING GROUP, THEREBY ENTERING THE AGREEMENT AND BE IN A POSITION TO NEGOTIATE WITH ZURICH ON THE WORTH OF GERLING. AN ADDED THREAT TO THE MOST RECENT LIQUIDATION COMPROMISE IS THAT THE BANK CONSORTIUM WHICH UNTIL NOW WAS TO ASSUME CONTROL OF 50 PERCENT OF GERLING NOW HAS IN MIND AT LEAST 51 PERCENT WITH NO REPURCHASE AGREEMENT PROVIDED TO GERLING. FUELING THE BANKRUPTCY POSSIBILITY IS THE ANNOUNCEMENT BY THE ASSOCIATION OF HERSTATT SAVERS THAT A MAJORITY OF THE CREDITORS NOW APPEARED TO FAVOR THE OPENING OF BANKRUPTCY PROCEDURES.

2. FOREIGN EXCHANGE MARKET: DURING THE FIRST THREE DAYS OF THE REPORTING WEEK, THE DOLLAR DROPPED BY 3 PERCENT FROM ITS DM 2.5355 FIXING ON THURSDAY NOVEMBER 14, BUT STRENGTHENED TO DM 2.5210 ON NOVEMBER 21. THE SUDDEN JUMP HAS BEEN ATTRIBUTED IN THE FINANCIAL PRESS TO A CARRYOVER EFFECT OF THE STRENGTH OF THE DOLLAR IN SWITZERLAND DUE TO THE NEWLY IMPOSED NEGATIVE INTEREST ON NON-RESIDENT DEPOSITS. DURING THE REPORTING WEEK SPOT AND FORWARD DOLLARS DEVELOPED AS FOLLOWS:

#### FORWARD DOLLARS

(DISCOUNTS IN PCT.P.A.)

SPOT DOLLARS ONE-MONTH THREE-MONTH

NOV 15	DM 2.5030	2.4	2.0
18	2.4630	2.2	2.0
19	2.4610	0.7	1.2
20	(GERMAN HOLIDAY)		

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21	2.5210	2.1	1.7
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ON THE FIRST DAY OF THE REPORTING WEEK ALL CURRENCIES WITHIN THE JOINT FLOAT WITH THE EXCEPTION OF THE NORWEGIAN AND SWEDISH CROWNS WERE ABOVE THEIR DEUTSCHEMARK CENTRAL RATE. THEREAFTER ALL CURRENCIES FELL BELOW THE DM CENTRAL RATE. THE NORWEGIAN CROWN NEARED BUT DID NOT REACH ITS LOWER INTERVENTION RATE ON

NOVEMBER 19.

3. MONEY MARKET: ON THE GERMAN MONEY MARKET THE CALL  
MONEY RATE WHICH WAS 4.9 PERCENT ON NOVEMBER 15 (I.E.  
BELOW THE DISCOUNT RATE OF 6 1/2 PERCENT) INCREASED  
SOMEWHAT THEREAFTER. FROM NOVEMBER 15-21 FRANKFURT  
INTER-BANK MONEY RATES DEVELOPED AS FOLLOWS:

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CALL MONEY ONE-MONTH MONEY THREE MONTH-MONEY

NOV 15 4.9-5.3 7.0 8.0-8.5

18	5.5-6.0	-	-
19	6.5-7.2	7.5-8.0	8.5-8.8
20	(GERMAN HOLIDAY)		
21	6.9-7.2	7.6-7.8	8.4-8.8

4. BOND MARKET: THE FAZ AVERAGE YIELDS TO MATURITY  
OF OUTSTANDING DOMESTIC BONDS DEVELOPED AS FOLLOWS:

8 PERCENT 7 PERCENT 6 PERCENT  
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NOV 15	11.18	10.85	10.49
18	11.11	10.80	10.43
19	11.12	10.77	10.43
20	(GERMAN HOLIDAY)		
21	11.09	10.73	10.42

THE CENTRAL CAPITAL MARKET COMMITTEE HAS RECOMMENDED  
IN LIGHT OF THE IMPROVED SITUATION OF THE BOND MARKET  
THAT NEW BOND ISSUES SHOULD HAVE LONGER MATURITIES.  
A DM 500 MILLION LOAN OF THE FEDERAL POST OFFICE IS  
PLANNED FOR THE END OF NOVEMBER. ACCORDING TO THE  
FINANCIAL PRESS THE FOLLOWING CONDITIONS ARE TO BE  
EXPECTED: 10 PERCENT COUPON; ISSUE PRICE 99 1/4-99 1/2  
MATURITY 8 YEARS. A FURTHER DM 600 MILLION FEDERAL  
LOAN IS EXPECTED TO BE ISSUED IN DECEMBER. THE ISSUE  
PRICE OF THE DM 480 MILLION FEDERAL RAILWAY LOAN (SEE  
BONN 17922) HAS BEEN CHANGED TO 99.50 PERCENT. IN  
OTHER DEVELOPMENTS A BANKING CONSORTIUM IS PRESENTLY  
PREPARING A DM 150 MILLION LOAN OF THE EUROPEAN COAL  
AND STEEL COMMUNITY. THE FOLLOWING CONDITIONS ARE  
ANTICIPATED: 9.75 PERCENT COUPON; ISSUE PRICE 100 PER-  
CENT; MATURITY 7 YEARS. THIS WOULD BE THE FIRST FOREIGN  
DM LOAN IN RECENT MONTHS WITH A NOMINAL INTEREST RATE  
OF LESS THAN 10 PERCENT. ADDITIONALLY, THE CITY OF  
BERGEN, NORWAY, THROUGH A BANK CONSORTIUM LEAD BY THE  
BERLINER HANDELSGESELLSCHAFT-FRANKFURTER BANK WILL  
ISSUE A DM 40 MILLION BOND ON NOVEMBER 22 WITH THE  
FOLLOWING CONDITIONS: 10 PERCENT COUPON; ISSUE PRICE  
100 PERCENT; MATURITY 5 YEARS.

5. DATA ON CHANGES IN BUNDESBANK MONETARY RESERVES AND  
BANK LIQUIDITY IN THE SECOND WEEK OF NOVEMBER WERE NOT  
AVAILABLE AT TIME OF PREPARATION OF THIS TELEGRAM.

HILLENBRAND

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## Message Attributes

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**Disposition Comment:**  
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